

# Auckland Airport

UNDERPERFORM

## Duty Free to Fly Solo

Auckland Airport's (AIA) duty free retailers are likely struggling with high rentals and a lower weighting of higher spending Chinese visitors, even prior to the coronavirus outbreak. However, its concession income from these retailers is protected at least until late 2022 by minimum annual guarantees (MAG). While the underlying risk to AIA's duty free concession income thereafter is to the downside, AIA has one ace up its sleeve — it could revert back to a single duty free operator model; something it last toyed with more than 10 years ago, but at that time the Commerce Commission (ComCom) declined the prospect. We now believe the path is clear for AIA to pursue a single duty free concessionaire. However, rather than providing an earnings boost we expect this to largely mitigate the concession tender risk. We make no changes to our earnings forecasts in this report. Trading at ~22x one year forward EBITDA, we believe AIA remains expensive, particularly given (1) downside risk to consensus forecasts in light of subdued passenger growth, exacerbated by the coronavirus outbreak, and (2) the likely deferral of AIA's Runway Land Charge from FY21.

### Duty free remains most important retail income contributor

Duty free contributes close to half of AIA's retail income, despite its relative contribution having fallen in recent years as AIA has significantly expanded its international departures speciality and food & beverages footprint. Unlike most airports globally, AIA has two duty free concessions that compete against each other.

### Duty free structural threats

We believe AIA's duty free business is under long term threat from (1) greater pricing visibility given the penetration of ecommerce, and (2) consolidation among duty free retailers globally (resulting in fewer tender applicants). The poor performance of at least one of its current two concessionaires (given high rental payments, that they both signed up to) poses a medium term risk (from FY23), as these arrangements are retendered.

### Single operator opportunity will mitigate retender risk

The ComCom opposed AIA pursuing a single duty free concession in 2008. Over the past 12 years we expect the ComCom has softened its views considerably given (1) online retail provides price competition in many duty free categories, and (2) the internet provides price visibility and transaction capability across duty free retailers at route-paired airports. Moreover, virtually all international airports globally operate single operator models. We estimate that a single operator model could be worth an additional NZ\$14m pa (or ~3% of group NPAT) of duty free concession income to AIA. However, we expect this benefit will be largely offset by the underlying retender risk given the challenges faced by the current concessionaires.

### Investment View

AIA is well positioned given its control of New Zealand's major gateway, its hub positioning for Air New Zealand and the country's positive longer term tourism outlook. It is a high quality infrastructure asset providing structural growth and sustainable dividends. The company is in the midst of a multi-year capex programme. AIA is sensitive to bond yield movements and international pax growth. In combination these no longer support current valuation levels and therefore our rating is UNDERPERFORM.

NZX Code	AIA
Share price	NZ\$8.55
Target price	NZ\$7.90
Risk rating	Low
Issued shares	1207.0m
Market cap	NZ\$10,320m
Avg daily turnover	1,066k (NZ\$9,288k)

### Share Price Performance



Financials: Jan/	19A	20E	21E	22E
NPAT* (NZ\$m)	274.7	271.2	269.1	272.1
EPS* (NZc)	22.8	22.3	22.0	22.1
EPS growth* (%)	3.6	-2.0	-1.4	0.5
DPS (NZc)	22.3	22.3	22.3	22.3
Imputation (%)	100	100	100	100

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	22.1	22.4	22.0	20.9
EV/EBIT	27.1	28.0	28.3	27.8
PE	37.5	38.3	38.9	38.7
Price / NTA	1.7	1.7	1.7	n/a
Cash div yld (%)	2.6	2.6	2.6	2.6
Gross div yld (%)	3.6	3.6	3.6	3.6

\*Historic/forecast numbers based on normalised profits

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**Auckland International Airport Ltd (AIA)**

Priced as at 28 Jan 2020 (NZ\$)

**8.55**
**12-month target price (NZ\$)\***
**7.90**
**Spot valuations (NZ\$)**

Expected share price return	-7.6%	1. DCF	6.39
Net dividend yield	2.6%	2. Sum of the parts	8.86
Estimated 12-month return	-5.0%	3. n/a	n/a

**Key WACC assumptions**

Risk free rate	2.00%
Equity beta	0.80
WACC	6.4%
Terminal growth	2.0%

**DCF valuation summary (NZ\$m)**

Total firm value	9,945
(Net debt)/cash	(2,232)
Less: Capitalised operating leases	-
Value of equity	7,714

**Profit and Loss Account (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Sales revenue	684	743	752	782	820
<b>Normalised EBITDA</b>	<b>506</b>	<b>555</b>	<b>558</b>	<b>576</b>	<b>605</b>
Depreciation and amortisation	(89)	(102)	(111)	(128)	(150)
<b>Normalised EBIT</b>	<b>418</b>	<b>453</b>	<b>447</b>	<b>448</b>	<b>455</b>
Net interest	(77)	(79)	(79)	(83)	(87)
Associate income	9	8	9	9	10
Tax	(218)	(109)	(105)	(105)	(106)
Minority interests	-	-	-	-	-
<b>Normalised NPAT</b>	<b>263</b>	<b>275</b>	<b>271</b>	<b>269</b>	<b>272</b>
Abnormals/other	(387)	(249)	-	-	-
<b>Reported NPAT</b>	<b>650</b>	<b>524</b>	<b>271</b>	<b>269</b>	<b>272</b>
Normalised EPS (cps)	22.0	22.8	22.3	22.0	22.1
DPS (cps)	21.8	22.3	22.3	22.3	22.3

**Valuation Ratios**

	2018A	2019A	2020E	2021E	2022E
EV/EBITDA (x)	24.0	22.1	22.4	22.0	20.9
EV/EBIT (x)	29.1	27.1	28.0	28.3	27.8
PE (x)	38.9	37.5	38.3	38.9	38.7
Price/NTA (x)	1.8	1.7	1.7	1.7	1.7
Free cash flow yield (%)	-0.6	0.5	-1.1	-2.4	-2.2
Net dividend yield (%)	2.5	2.6	2.6	2.6	2.6
Gross dividend yield (%)	3.5	3.6	3.6	3.6	3.6

**Capital Structure**

	2018A	2019A	2020E	2021E	2022E
Interest cover EBIT (x)	5.4	5.8	5.6	5.4	5.2
Interest cover EBITDA (x)	6.6	7.1	7.0	6.9	6.9
Net debt/ND+E (%)	25.6	26.3	28.9	32.4	33.0
Net debt/EBITDA (x)	3.9	3.9	4.4	5.1	5.2

**Growth Rates**

	2018A	2019A	2020A	2021A	2022A
Revenue (%)	8.7	8.7	1.1	4.0	4.9
EBITDA (%)	7.0	9.6	0.6	3.3	5.0
EBIT (%)	5.6	8.4	-1.2	0.2	1.6
Normalised NPAT (%)	6.2	4.4	-1.3	-0.8	1.1
Normalised EPS (%)	5.6	3.6	-2.0	-1.4	0.5
Ordinary DPS (%)	6.1	2.3	0.0	0.0	0.0

**Key Ratios**

	2018A	2019A	2020E	2021E	2022E
Return on assets (%)	5.1	5.2	4.9	4.7	4.5
Return on equity (%)	4.6	4.6	4.5	4.4	4.3
Return on funds employed (%)	12.3	11.0	9.6	8.6	7.7
EBITDA margin (%)	74.0	74.6	74.2	73.7	73.8
EBIT margin (%)	61.0	60.9	59.5	57.3	55.5
Capex to sales (%)	56.6	43.1	64.9	81.9	78.0
Capex to depreciation (%)	436	313	441	499	427
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	99	98	100	101	101

**Cash Flow (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
<b>EBITDA</b>	<b>506</b>	<b>555</b>	<b>558</b>	<b>576</b>	<b>605</b>
Working capital change	(12)	(49)	(9)	(9)	(10)
Interest & tax paid	(295)	(188)	(185)	(188)	(193)
Other	122	57	9	9	10
<b>Operating cash flow</b>	<b>321</b>	<b>376</b>	<b>373</b>	<b>388</b>	<b>412</b>
Capital expenditure	(387)	(320)	(488)	(640)	(640)
(Acquisitions)/divestments	347	(1)	-	-	-
Other	(9)	(7)	(7)	(12)	(15)
<b>Funding available/(required)</b>	<b>272</b>	<b>48</b>	<b>(122)</b>	<b>(264)</b>	<b>(243)</b>
Dividends paid	(183)	(192)	(181)	(195)	20
Equity raised/(returned)	-	-	-	-	-
<b>(Increase)/decrease in net debt</b>	<b>90</b>	<b>(144)</b>	<b>(303)</b>	<b>(459)</b>	<b>(223)</b>

**Operating Performance**

	2018A	2019A	2020E	2021E	2022E
Aeronautical	328.5	342.2	334.4	348.1	366.6
Consumer	263.0	301.3	308.8	318.6	332.8
Property	86.1	94.7	103.2	109.6	115.1
Other	6.3	5.2	5.3	5.4	5.5
<b>Total sales revenue</b>	<b>683.9</b>	<b>743.4</b>	<b>751.7</b>	<b>781.7</b>	<b>820.0</b>
Aeronautical	239.9	252.1	244.4	255.0	269.5
Consumer	232.6	269.0	274.8	283.6	296.2
Property	65.5	72.2	78.9	83.9	88.0
<b>Total EBITDAFI</b>	<b>506.4</b>	<b>554.8</b>	<b>557.9</b>	<b>576.3</b>	<b>605.2</b>

**Balance Sheet (NZ\$m)**

	2018A	2019A	2020E	2021E	2022E
Working capital	(76)	(33)	(120)	(124)	(130)
Fixed assets	6,378	6,577	6,814	7,226	7,616
Intangibles	-	-	-	-	-
Right of use asset	-	-	-	-	-
Other assets	1,640	2,014	2,162	2,272	2,381
<b>Total funds employed</b>	<b>7,942</b>	<b>8,557</b>	<b>8,857</b>	<b>9,373</b>	<b>9,867</b>
Net debt/(cash)	1,954	2,153	2,456	2,915	3,138
Lease liability	-	-	-	-	-
Other liabilities	306	371	371	371	371
Shareholder's funds	5,682	6,033	6,030	6,087	6,358
Minority interests	-	-	-	-	-
<b>Total funding sources</b>	<b>7,942</b>	<b>8,557</b>	<b>8,857</b>	<b>9,373</b>	<b>9,867</b>

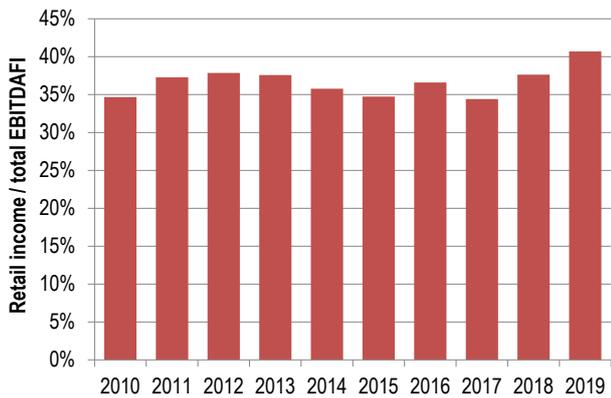
	2018A	2019A	2020E	2021E	2022E
International pax growth (%)	4.7	3.0	1.0	2.0	3.5
Transits (%)	-1.2	-1.2	-15.0	2.0	3.5
Total int'l pax growth (%)	4.7	3.0	1.0	2.0	3.5
Domestic pax growth (%)	7.7	3.6	-2.0	3.0	3.0
Aero income per pax change	-2.4	1.3	-0.7	-0.1	2.4
Retail sales per int'l pax change	12.1	15.5	3.0	1.0	1.0
Car park income per pax change	1.6	1.8	1.0	1.0	1.0
Yield on property BV (%)	7.4	6.8	6.6	6.5	6.4
Int'l aircraft numbers ('000)	55.7	57.1	56.3	56.9	58.3
Domestic aircraft numbers ('000)	118.6	121.7	117.8	119.8	121.9

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

## Duty free pressures and opportunity

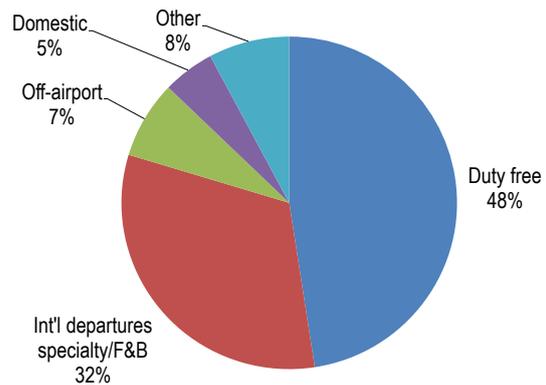
Duty free remains the most important contributor to AIA's retail operations. We estimate it accounts for ~48% of retail EBITDA or ~22% of total group EBITDA. However, duty free as a travel retail category is under threat given the pricing advantage that it historically enjoyed (or at least perceived to have enjoyed) has been eroded. The longer term outlook for duty free is, therefore, constrained, in our opinion.

Figure 1. Retail income contribution to EBITDAFI at AIA



Source: AIA, Forsyth Barr analysis

Figure 2. Duty free is the largest component of retail income at AIA



Source: Forsyth Barr analysis

### Growth of duty free historically

Duty free has been a strong driver of commercial earnings in recent years for airports globally, and AIA in particular, given:

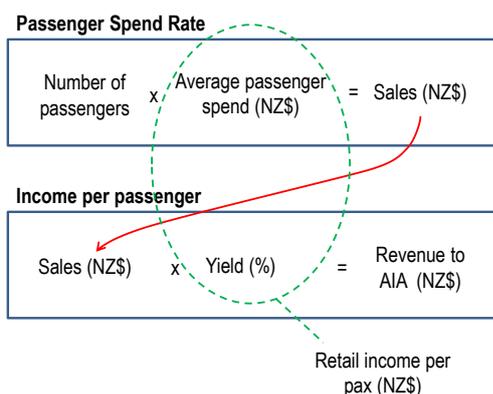
- Category growth
- Concession yield increases

Category growth has stemmed from passenger growth and duty free retailers successfully attracting travellers to transact more.

An upwards shift in duty free concession yields in recent years has coincided with two opposing forces: (1) the consolidation of duty free players globally, and (2) greater scale and sophistication across airports in managing their retail operations and undertaking duty free concession tenders. The latter has more than offset the former.

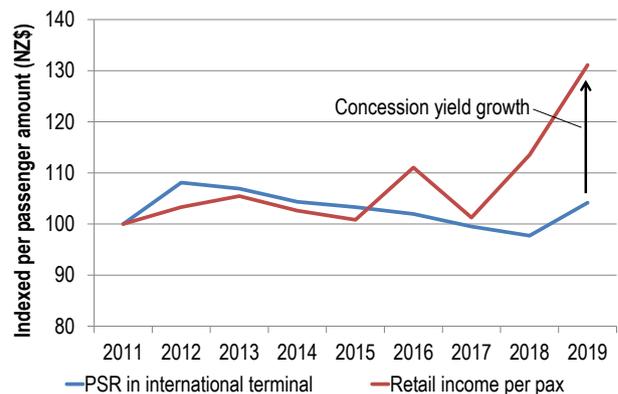
While AIA doesn't disclose its concession yields it has clearly benefited from concession yield expansion (as shown in Figure 4) given the substantial growth of retail income per passenger in excess of passenger spend rates (PSR). Over the past eight years the passenger spend rate in AIA's international terminal has increased just +4%. In contrast, retail income per passenger has increased +31%.

Figure 3. The building blocks of retail income



Source: Forsyth Barr analysis

Figure 4. Retail income per pax has outgrown PSR



Source: Forsyth Barr analysis

**Structural threats to duty free**

Future duty free concession yield growth may be constrained at AIA by (1) the reduced price competitiveness of duty free vs online and high street retailing, (2) the likely unprofitable nature of the existing duty free concessions, (3) the consolidation trend among duty free players globally, (4) the reduced proportion of higher spending Chinese passengers among inbound travellers (in 2019 they represented 10.6% vs 12.0% in 2017), and (5) the growth of inbound duty free in China.

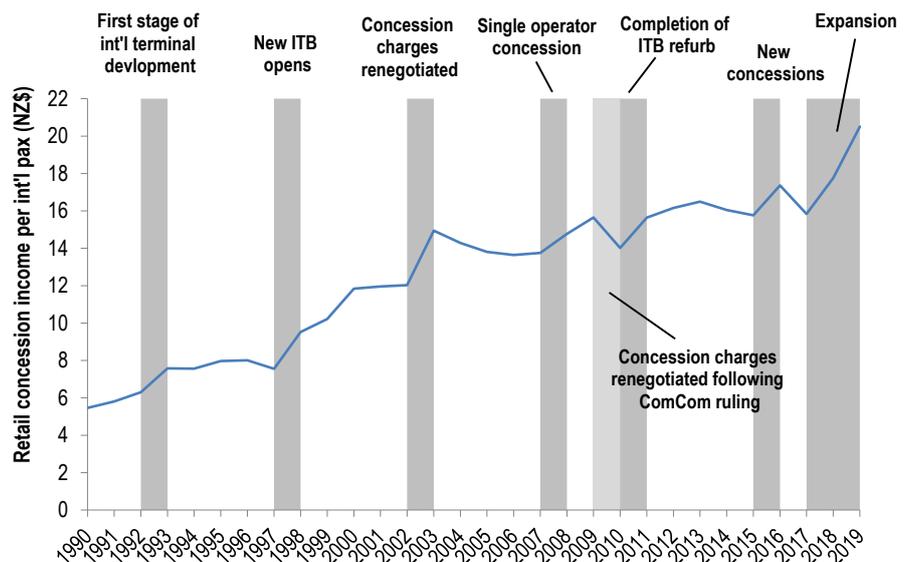
However, despite these challenges we expect current concession yields can be retained when AIA undertakes its next tender process in 2022, given the potential switch from its current twin duty free operator model to a single duty free retailer.

**Single operator model: a key opportunity for AIA?**

AIA has, and has had historically, two duty free concessions. In January 2007 it decided to move to a single duty free concession as a result of its impending international terminal redevelopment. In July 2007 it awarded the sole duty free concession to DFS Galleria. As a result, Swiss owned Nuance (the other duty free concessionaire at the time) decided to sell its existing duty free operations to DFS Galleria who applied for clearance from the Commerce Commission (ComCom) to do so.

However, in March 2008 the Commerce Commission declined to grant clearance for DFS Galleria to acquire Nuance. AIA continued to consult with the ComCom but the latter continued to express concerns and AIA ultimately decided to maintain two operators.

Figure 5. Retail income per int'l pax at AIA



Source: AIA, Forsyth Barr analysis

We calculate in Figure 6 that the financial impact of this amounted to ~NZ\$9m pa of lost minimum annual guarantee from DFS Galleria. In DFS New Zealand Ltd's 2009 annual accounts (at the Companies Office) we highlight the following extract:

*“On March 25 2009 the Company signed a variation to the deed of licence with Auckland International Airport Limited (“AIAL”) for the operation of duty free retail outlets at Auckland International Airport. The terms of this agreement reduced the future minimum rentals payable under the agreement for the period 4 August 2009 to 30 June 2015 by \$281,622,044”.*

**Figure 6. Benefit of single operator model to MAG in 2009–2015 period**

	Contract	MAG
Start of contract	4-Aug-09	
End of contract	30-Jun-15	
Contract length	5.9	
Reduction in MAG (NZ\$m)		281.6
Reduction per year (NZ\$m)		47.7
Revised MAG (NZ\$m)		38.9
Impact of single operator model on AIA (NZ\$m)		8.8
Total combined MAG for twin operators [revised MAG of NZ\$38.9m x 2]		77.8
<b>Percentage uplift from single operator [NZ\$8.8m / NZ\$77.8m]</b>		<b>11%</b>

Source: Companies Office, AIA, Forsyth Barr analysis

Duty free retailers will be prepared to pay more for their concessions in a single operator model given (1) less direct competition, and (2) greater range of products to better meet customers' needs.

Since 2009 a number of things have happened in duty free retailing: (1) concession yields have increased, (2) passenger numbers have increased, (3) the passenger mix has changed with a greater proportion of higher spending Chinese visitors, and (4) tobacco rule changes that have decimated the tobacco category. The minimum annual guarantee (MAG) through this period was fixed at the same annual value (i.e. there was no inflation or pax growth adjustments).

In contrast, the current duty free concession MAGs are leveraged to passenger numbers and reset each December. These contracts expire in December 2022.

#### Why will ComCom have changed its tune?

In 2008 the ComCom considered that the proposed acquisition of Nuance by DFS "would see the removal of the competition posed by Nuance. Duty free consumers would no longer have a choice of duty free retailers, and no longer have the ability to compare prices between competing retailers at Auckland International Airport. The Commission considered there was likely to be very limited competition from high street duty free retailers, and duty free retailers located at route-paired airports".

Over the past 12 years we expect the ComCom has softened its views considerably given:

- Online retail provides price competition in many duty free categories. Duty free no longer commands the price advantage that it previously did.
- The internet provides price visibility and transaction capability across duty free retailers at route-paired airports.

In addition we note that:

- Supermarkets and liquor stores provide meaningful price competition for alcohol.
- Duty free tobacco rule changes have resulted in tobacco becoming a less relevant duty free category.
- Virtually all international airports globally operate single operator models. Some may split duty free concessions between categories or terminals but not across all categories in the same terminal.
- Wellington and Christchurch airports both have single operator models.

**Consequently, we expect the ComCom would no longer oppose a single operator model at AIA.**

#### Potential benefit to AIA?

While we understand that one of AIA's duty free players is trading more successfully than the other, the level of promotional activity by both through the year suggests that they are "in MAG" (trading below their minimum annual guarantees to AIA) for long periods.

Our analysis in Figure 6 earlier suggested that the single operator model previously commanded an 11% improvement in MAG for AIA. Assuming the same increase applied in the next duty free concession period then the uplift to AIA of a single operator model could be ~+NZ\$14m pa.

**Figure 7. Potential benefit to AIA from single operator model at AIA**

	2018	2023
Concession paid by ARI Auckland in 2018	53.7	
Int'l pax growth 2018-2023		14%
Probable concession in 2023 under current model		61.2
Implied total concession income in 2023		122.4
Potential uplift from single operator model		11%
<b>Implied uplift from single operator in 2023</b>		<b>13.9</b>

Source: Forsyth Barr analysis

We expect this level of uplift will broadly offset the pressure on MAG through the next tender process from the current challenging duty free retail backdrop at AIA.

### Retail outlook reliant on pax growth over the medium term

We expect AIA's retail income per pax to grow by +1% pa from FY21E and through the concession renewal in FY23 when it likely shifts to a single duty free operator model. We expect underlying pressure on the duty free concession yield will be offset by the benefits of a single concession.

While we recognise the structural threat to duty free as a category we believe AIA will continue to grow its retail income per pax driven by inflation and the growth in off-airport retail, its growing ecommerce platform and future initiatives, and price inflation.

The uplift in FY25 includes the benefit from the new domestic jet terminal, which we expect will include a material retail component.

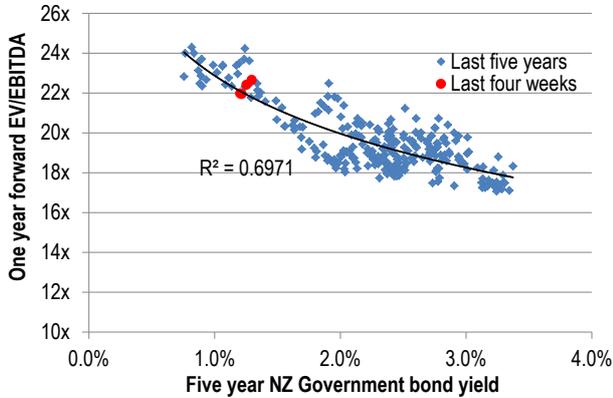
**Figure 8. Retail income forecasts for AIA (NZ\$/pax)**

	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E
Retail income per international pax	20.50	21.12	21.33	21.54	21.76	21.98	23.30	23.53
<i>Change</i>	15.5%	3.0%	1.0%	1.0%	1.0%	1.0%	6.0%	1.0%
International pax incl transit (m)	11.0	11.0	11.3	11.7	12.1	12.5	12.9	13.4
<i>Change</i>	2.6%	0.3%	2.0%	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Retail income (NZ\$m)</b>	<b>225.8</b>	<b>233.2</b>	<b>240.2</b>	<b>251.1</b>	<b>262.5</b>	<b>274.4</b>	<b>301.1</b>	<b>314.7</b>
<i>Change</i>	18.5%	3.3%	3.0%	4.5%	4.5%	4.5%	9.7%	4.5%

Source: Forsyth Barr analysis

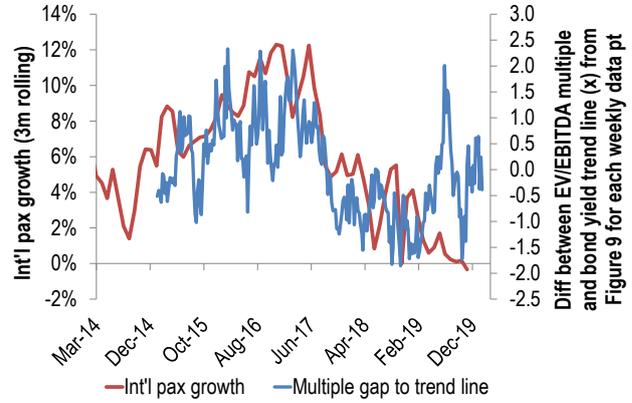
# Valuation

Figure 9. Bond yields are a key driver of AIA's valuation



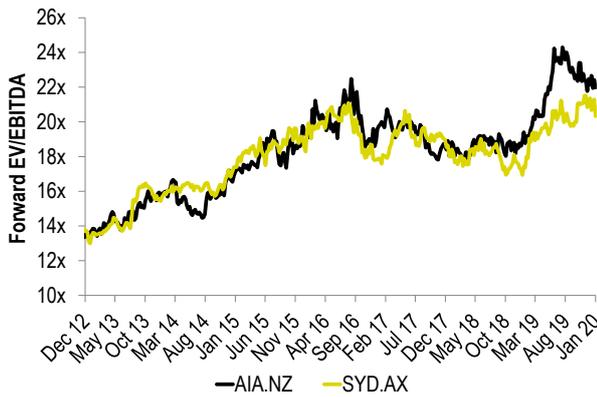
Source: Eikon, Forsyth Barr analysis

Figure 10. Valuation largely a function of bond yields and pax growth



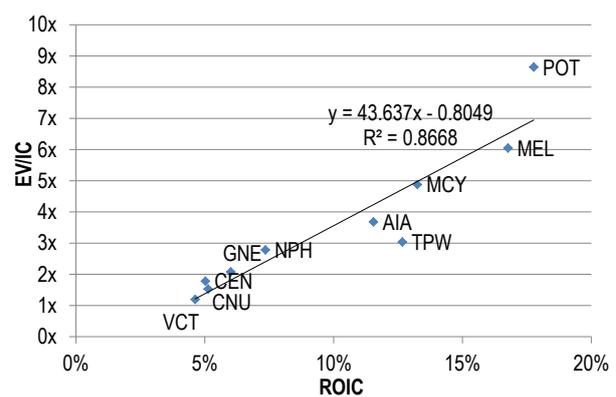
Source: Eikon, AIA, Forsyth Barr analysis

Figure 11. AIA vs SYD



Source: Eikon, Forsyth Barr analysis

Figure 12. Capex outlay over next few years will impact AIA's ROIC



Source: Eikon, Forsyth Barr analysis

Figure 13. Relative valuation of global airport peers (as at 28 January 2020) based on consensus estimates

Company	Ticker	Share price	Div yield	PE (x)		EV/EBIT (x)		EV/EBITDA (x)	
				1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd	1-yr fwd	2-yr fwd
Auckland International Airport	AIA.NZ	NZ\$8.55	2.8%	37.8x	36.5x	27.0x	25.7x	21.7x	20.3x
Sydney Airport Holdings	SYD.AX	A\$8.26	5.1%	44.4x	41.5x	29.3x	27.7x	20.3x	19.4x
Malaysia Airports Holdings	MAHB.KL	MYR6.42	3.6%	16.8x	15.7x	9.7x	9.3x	5.8x	5.6x
Flughafen Wien AG	VIEV.VI	€35.90	3.5%	17.7x	17.3x	12.7x	12.4x	8.4x	8.2x
Flughafen Zuerich AG	FHZN.S	CHF168.00	3.1%	17.2x	20.8x	14.7x	17.5x	9.1x	10.1x
Fraport AG Frankfurt Airport	FRAG.DE	€67.72	3.3%	13.3x	12.9x	14.3x	14.1x	8.7x	8.5x
Airports of Thailand PCL	AOT.BK	THB68.00	2.5%	31.6x	25.1x	23.9x	18.9x	20.4x	16.3x
Beijing Capital International	0694.HK	HKD6.41	n/a	15.7x	n/a	12.4x	n/a	7.6x	n/a
Aeroports de Paris SA	ADP.PA	€169.00	2.6%	25.3x	23.3x	19.2x	18.1x	12.0x	11.4x
Grupo Aeroportuario del Pacifico	GAPB.MX	MXN234.60	5.2%	20.2x	18.7x	13.9x	12.6x	11.6x	10.7x
Grupo Aeroportuario del Centro Norte	OMAB.MX	MXN141.50	4.5%	15.1x	13.3x	9.4x	8.7x	8.4x	7.7x
Grupo Aeroportuario del Sureste	ASURB.MX	MXN365.41	n/a	17.9x	16.6x	13.2x	12.3x	11.0x	10.2x
<b>Average</b>			<b>3.6%</b>	<b>22.7x</b>	<b>22.0x</b>	<b>16.6x</b>	<b>16.1x</b>	<b>12.1x</b>	<b>11.7x</b>

Source: Eikon, Forsyth Barr analysis

## Investment summary

**Auckland Airport (AIA) is New Zealand’s premier airport and provides Air New Zealand with a domestic and international hub. It is very profitable given strong concession based commercial assets. It is part way through a major 10-year plus capex programme, which will facilitate longer term growth. Despite the support from attractive return on capital in AIA’s non-regulated commercial assets and low prevailing Government bond rates, its valuation is stretched. Moreover earnings risk is to the downside, in our opinion. UNDERPERFORM.**

### Business quality

- **Hub-airport:** AIA is New Zealand’s key international gateway and accounts for ~90% of all long-haul passengers (pax) arriving in New Zealand. Its available land provides scope to increase capacity over the next 30+ years.
- **Multi-pronged strategy:** AIA has three key income streams — (i) aeronautical (regulated); (ii) commercial, which incorporates retail and car parking; and (iii) development property.
- **Track record:** AIA has created value in recent years through route development activities, expanding its retail footprint to optimise passenger spend and concession rates, and developing property.

### Earnings and cash flow outlook

- **Slower phase of earnings:** The growth outlook for the next three years is impacted by subdued aeronautical income and reversion to mean for pax growth after a recent boom. Earnings growth should accelerate from FY23.
- **Aeronautical income:** AIA resets its aeronautical prices every five years which are subject to regulatory oversight from the Commerce Commission (ComCom). The current price path prescribes subdued aeronautical income growth through to FY22.

### Financial structure

- **Balance sheet:** AIA is in the midst of a major capex bulge given the need to build capacity. AIA expects to spend ~NZ\$3.0bn over the next five years.
- **Dividends:** It has a 100% dividend pay-out rate and has a dividend reinvestment plan in place.

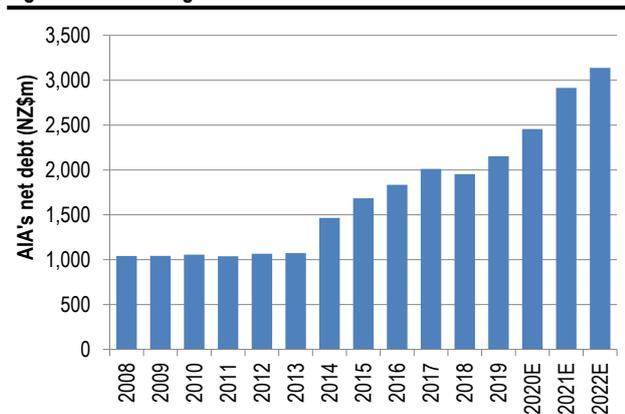
### Risks factors

- **Rising bond yields:** AIA trades as a bond proxy. Its valuation holds a very strong inverse relationship with bond yields.
- **Regulatory risk:** We expect AIA to lower current aeronautical prices to ease any regulatory pressure given its mixed ComCom report last year.

### Company description

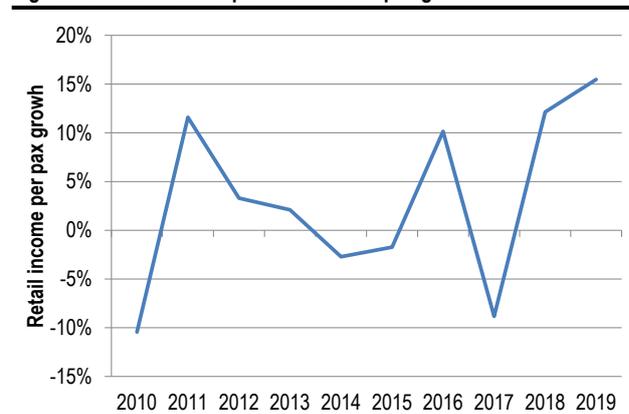
AIA was listed in July 1998 following the Government selling its majority stake. The current major shareholder, the Auckland Council, owns 22.4%. Auckland is the largest airport in New Zealand and has around a 70% share of international passenger traffic. Its share of long haul traffic is in excess of 90%. The company generates income from three core areas - regulated aeronautical, consumer activities, and investment property. AIA also has minority stake in Queenstown airport.

Figure 14. Increasing debt burden at AIA



Source: Company reports, Forsyth Barr analysis

Figure 15. Retail income per international pax growth



Source: Company reports, Forsyth Barr analysis

Figure 16. Substantial Shareholders

Shareholder	Latest Holding
Auckland City Council	22.1%
BlackRock Investment Management	5.0%

Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

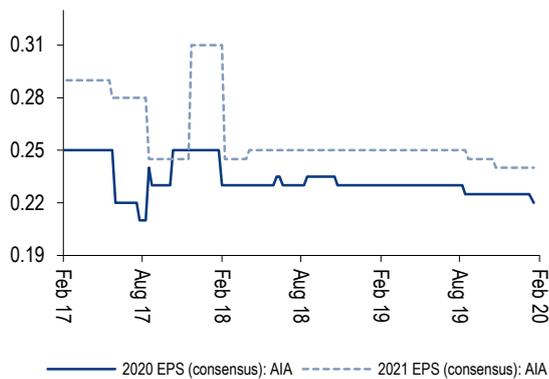
Figure 17. International Compcos

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
				2020E	2021E	2020E	2021E	2020E	2021E	
Auckland Airport	AIA NZ	NZ\$8.55	NZ\$10,320	38.3x	38.9x	22.4x	21.6x	27.9x	27.8x	2.6%
Sydney Airport	SYD AT	A\$8.43	A\$19,040	47.1x	43.5x	20.9x	19.9x	30.5x	28.8x	4.9%
Malaysia Airports Holdings Bhd	MAHB MK	RM6.83	RM11,332	18.3x	16.5x	6.6x	6.3x	10.9x	10.4x	3.3%
Flughafen Wien AG	FLU AV	€35.90	€3,016	18.0x	17.5x	8.3x	8.1x	12.7x	12.2x	3.4%
Flughafen Zurich AG	FHZN SW	CHF168.00	CHF5,158	17.0x	18.6x	9.1x	9.3x	14.5x	15.5x	3.2%
Fraport AG Frankfurt Airport Services Worlc	FRA GY	€67.72	€6,262	13.8x	13.2x	8.8x	8.5x	14.3x	14.0x	3.2%
Airports of Thailand PCL	AOT TB	THB68.75	THB982,142	36.6x	28.2x	23.2x	18.0x	27.5x	21.2x	2.0%
Beijing Capital International Airport Co	694 HK	CN¥6.41	CN¥29,353	14.5x	18.8x	7.5x	8.8x	11.6x	15.3x	2.2%
<b>Compcos Average:</b>				<b>23.6x</b>	<b>22.3x</b>	<b>12.1x</b>	<b>11.3x</b>	<b>17.4x</b>	<b>16.8x</b>	<b>3.2%</b>
<b>AIA Relative:</b>				<b>+62%</b>	<b>+74%</b>	<b>+85%</b>	<b>+92%</b>	<b>+60%</b>	<b>+66%</b>	<b>-18%</b>

EV = Current Market Cap + Actual Net Debt

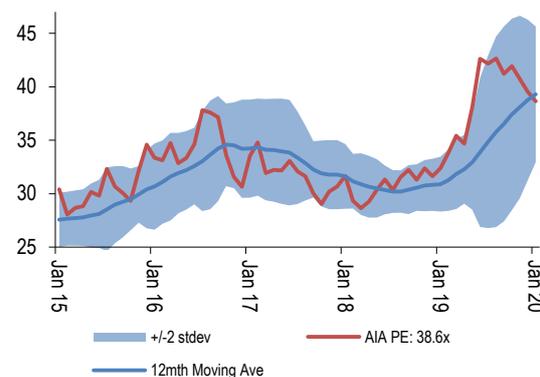
Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compcos metrics re-weighted to reflect headline (AIA) companies fiscal year end

Figure 18. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 19. 12 Month Forward PE



Source: Forsyth Barr analysis

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